

## BUSINESS ANALYSIS AND RECOMMENDATION FOR TELKOMSEL SUB-BRANCH OFFICES IN DESIGNING OUTLET LOYALTY PROGRAMS

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**Abstract**-Mobile telecommunications industry In Indonesia has experienced rapid growth. Ever since the implementation of PERMENKONFONo.1/2010 which concerns liberalization of telecommunications In Indonesia, there are number of mobile telco operators that being acquired by foreign investors. Based on the reports of the Indonesian Cellular Telecommunications Association (ATSI), estimated the total number of mobile phone subscribers at the end of 2011 has reached 240 million users in which the number of GSM prepaid subscribers dominates with more than 95%. Full implementation of hard cluster system by Telkomsel is considered as a threat for outlets due to cross-cluster restrictions as that would limit its sales area. Another concern for Telkomsel sales partners, including authorized dealers, is cooperation between Telkomsel with retail companies to increase distribution and sales through media ATM and non-ATM. Moreover, restrictions on cross-cluster rules do not applied to transactions via ATM, non-ATM and retail. Analysis tools that being used are PESTEL, Porter's 5 Forces and Resource Based View which than combined to arrange SWOT analysis. Result of analysis identifying root causes which being derived into 4 areas, namely distribution, marketing, regulation, and price competition. In order to improve the performance of Telkomsel sub-branches in sales functions and market domination in sub-branches area therefore Telkomsel should focus its strategy in distribution and marketing area. This research would give a business solution for Telkomsel in form of framework in designing loyalty programs for outlets. Expected results from its implementation are increase sales performance, market shares domination, and high outlet loyalty.

*Key Words: Hard Cluster, outlet Loyalty, increase sales performance*

### 1. Introduction

Mobile telecommunications industry in Indonesia has experienced rapid growth. Based on the reports of the Indonesian Cellular Telecommunications Association (ATSI), estimated the total number of mobile phone users at the end of 2011 has reached 240 million users in which the number of users of a GSM dominates with more than 95%. (kompas.com, 2012) These figures illustrate the real conditions in the telecommunications industry was in the mature phase. Ever since the implementation of PERMENKONFONo.1/2010 which concerns liberalization of telecommunications in Indonesia, there are number of mobile telecommunications operators that being acquired by foreign investors. The amounts of potential benefits that may be obtained attract new players to compete despite many obstacles that must be faced. The three big players in the mobile telecommunications industry, namely Telkomsel, Indosat and XL gradually eroded its market share as its competitors are smart enough to implement competitive strategies and targeting niche markets so that not have to directly face each other.

Market conditions begin to saturate and the intense competition in the mobile telecommunication industry is more complex by the many concerns of the many sales outlets for policy implementation hard cluster of several mobile operators, through which the company's strategies only allow the activity distribution, marketing, and sales of starter packs, recharge vouchers and other services performed in the local area. The strategy aims to facilitate the supervision of the product cycle, but

on the other hand may lead to resistance of the outlets who feel their business activities limited. This study intends to examine internal and external factors that can be used for the company to design the loyalty program for sales outlets. Hopefully with the creation of a loyalty program, could improve the performance of Telkomsel sub branches in selling prepaid card products of Telkomsel, which are simPATI and Kartu As, and broadband products (Flash, Blackberry and iPhone).

Until the end of 2011, Telkomsel implementing soft-cluster distribution system where authorized dealers (Mitra AD) and outlets can sell mobile products, particularly recharge voucher, to consumers (subscribers and outlets) inside and outside the main cluster. This system encourage *servers* (outlets which has a large capital in providing electronic recharge voucher) to meet the needs of its customers (small outlets) or the emergence of new business relating to the sale of recharge vouchers (for example MLM). Telkomsel establish sub-branch offices to perform controlling and monitoring sales and marketing function in sub-region. Generally the number of employees in the office of the sub-branch is less than 10 people so that the company should be able to maximize the role of each personnel. In carrying out their duties is carried out in collaboration with Mitra AD to be able to cover the whole working area of the sub-branch offices.

The problem started when Telkomsel fully applying hard cluster system since the beginning of 2012 (see exhibit 1&2). Outlets that used to serve top-up transactions outside the cluster becomes constrained because the system restricting cross-cluster transactions. But Telkomsel consistency being questioned by outlets because the restriction does not applied to transactions that occur in retail outlets which owned by business partners of Telkomsel. These problems can lead to lack of harmony between the company and outlets whereas Telkomsel requires the ac role of outlets as a critical point in marketing and sales functions.

## **2. Business Issue Exploration**

The business problem is how to make outlets loyal to Telkomsel. References for this thesis comes from the journal of theory and research, articles, internal information from Telkomsel management, and also direct interviews to outlet owners. From initial interviews, these are the causes of the problem:

- Full implementation of hard cluster system were confronted with obstacles because the outlets are not ready to adopt the new rules, when in fact Telkomsel in recent years has begun to implement the clustering system gradually, starting from the implementation of soft cluster system that limits cross-region transactions.
- Telkomsel considered favoritism as hard cluster system is not applied to transactions made through retail outlets and banks
- Authorized Dealers performance is still not good in distributing Telkomsel products.

### **A. Conceptual Framework**

To better understand the causes of low levels of Bed Occupancy Rate (BOR), this study used a conceptual framework below:

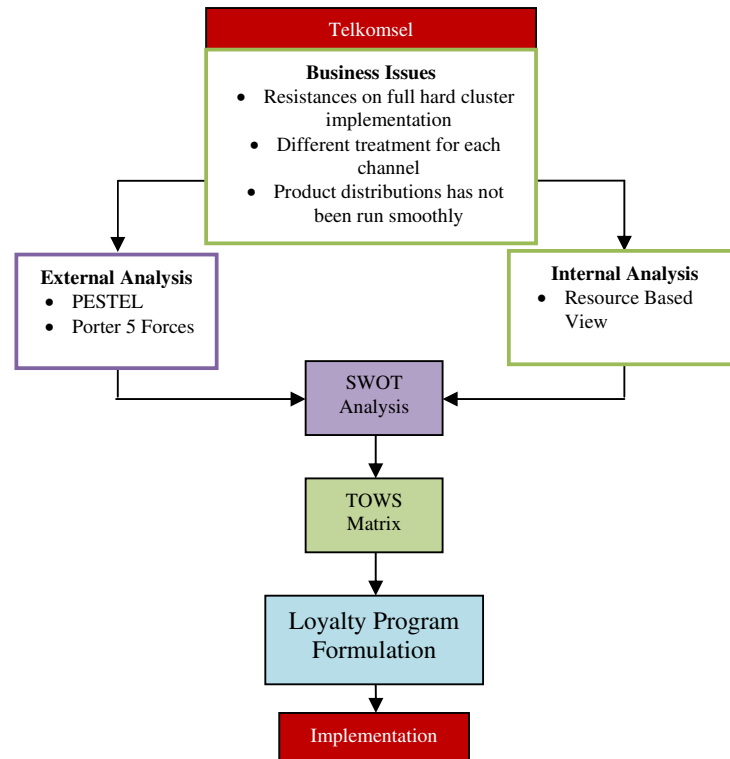


Figure 1. Conceptual framework

## B. Method of Data Collection and Analysis

The study began by conducting qualitative study and data analysis obtained from internal sources, articles and reports, and interview with respondent. To help us better understand the perception of outlets whose become the main target in this research, we conduct interview twice, which are:

- Initial interview was conduct to explore relationship intimacy between Telkomsel sub-branches, authorized dealer, and outlets
- Second interview conducted to measure effectiveness of current loyalty programs of Telkomsel.

The initial stage in accordance with the conceptual framework below) is by doing a SWOT analysis of the internal and external conditions of Telkomsel. Analysis of company's external environment would be through the analysis of PESTEL and Porter 5 Forces Model. PESTEL analysis (Political, Economic, Socio cultural, Technological, Environmental and Legal) can assist companies to understand the opportunities and threats that may be encountered and the influence of various macro environmental factors of the industry in the future. Porter 5 Forces Model is used to identify five forces that determine the basic structure of an industry. After conducting an external analysis, the next step is to analyze the company's internal use Resource Based View is used to identify and determine the company's capabilities to become the company's core competencies.

## C. Analysis of Business Situation

There are several concerns from PESTEL and Porter 5 Forces Analysis, such as:

- Several government policies in regulating mobile telecommunications industry are considered less attention to the real conditions. As example, government encourages mobile operators to increase the coverage area of service but the government limits the establishment of BTS. (Antaranews, 2011)
- The development of technology and the trend could endanger the existing products.
- Price competition that has lasted longer adversely affected for many operators

From internal company analysis, it found that Telkomsel needs improvements in marketing and distribution function. Telkomsel need to improve their cluster management to ensure all

stakeholders that involved in product distribution process from Telkomsel to consumers could gain equitable benefits. At the same time, Telkomsel has to create an integrated and unique marketing that can be advantage and differentiator with its competitors. Selection of the right advertising agency can help in generating advertisement unique ideas. From SWOT Analysis of from Telkomsel there are some key points that could be known, which are:

**Strength**

- Huge customer database will generate revenue from core product and VAS
- Broad coverage area because the number of BTS owned
- Strong financial strength that measured from the stability of cash flow and financial ratio
- Telkomsel is known as the best mobile telecommunication company in Indonesia
- R&D Center establishment allows company to create incremental and breakthrough innovations

**Weakness**

- Telkomsel as subsidiary of Telkom not fully independent to develop and execute corporate strategy.
- Telkomsel has a lot of reliance on Telkom as some key suppliers is a subsidiary of Telkom.
- Implementation of Hard Cluster System still not running well.
- Guideline to create loyalty programs for the outlet is still modest and not much different from the loyalty program offered by competitors.
- Still not able to maximizing outlets' role as marketing media.

**Opportunities**

- The advance of social networking will boost internet usage
- Trend of number rise of labor signifies the increasing consumer purchase power.
- New wave business

**Threat**

- Government regulation concern liberation in telecommunication industries become doubtfulness because less strict requirements that must be met
- Hectic political activity to prepare for presidential and legislative elections to be held in 2014 have shown a negative impact on stability in the country.
- Competition between operators to offer the lowest possible price in case dangerous in the long term
- Evolution of internet capabilities might be able to endanger traditional forms of communication which is the main source of income of the company.
- Restrictions on construction site of BTS

After conducting analysis above, we found several root problems, namely:

1. **Distribution.** Telkomsel still have to struggle to ensure its policy in implementing hard cluster system is able to run in long periods of time and able to ensure each stakeholder's business, especially outlets, run smoothly.
2. **Marketing.** In this vast industry, each operator cannot guarantee that above the line advertising still have good composure, thus there is need to maximize outlets' role as critical touch point in below-the-line marketing activities.
3. **Regulation.** The telecommunications industry in a period of uncertainty due to the changes of regulations that could potentially inhibit the growth of the industry and the companies within it.
4. **Price competition.** Competition from providers in offering low prices that are considered the easiest efforts in enhancing customer database, if prolonged would cause loss to the company.

### **3. Business Solution**

#### **A. Alternative Business Solution**

The next stage is to use the TOWS Matrix as a situational framework to help the company get a extensive choice of competitive strategy by pairing external environment (opportunities and threats) and internal environment (strength and weakness). In addition, the use of the TOWS Matrix aims to make the company not only focuses on developing strength, but also have to overcome the

weaknesses that held so that it can be a competitive advantage in the future. (*TOWS matrix combination can be seen in exhibit 1*)

#### **B. Analysis of Business Solution**

Results of the above analysis TOWS matrix is divided into four basic functions of management, which is marketing, operational, financial, and human resources. Some combination of the elements of SWOT more focused on macro level such as the government's role as regulator and a growing trend in society. Other combinations are internal or can be changed according to the capabilities of the company. According to the limitation of this study, the analysis TOWS matrix will be used to help the sub-branch offices formulate the loyalty program for the outlet. Formulation of strategies outlined in the implementation plan will be clear direction for all Telkomsel employees. Implementation plan can run more successful if we know the Key Success Factor (KSF) growing in the field. Key Success factors may be a function, activity, or business practices. Grunert & Ellegaard state that "*Competitive advantage, and indirectly business performance, can therefore be related to how the business scores with regard to these skills and resources, which, according to the terminology from the preceding section, can be regarded as the actual determinants of differences in performance*" (1992 : 15). KSF identification process adapted to the scope of the work unit, where the research will be focused to sub branches and in-line with company's objective to increase sales performance and market shares domination.

#### **4. Conclusion and Implementation Plan**

Mobile telecommunication industry in Indonesia has reached the phase of "mature" with a penetration rate of over 100% and the number of nationwide mobile telecommunication companies exceeds the average number of operators in the same industry in other countries. The emergence of new players triggers price competition resulting in lower levels of revenue, including Telkomsel. Increasingly intense competition make Telkomsel position as market leader for the past decade is not safe. This study suggests that the potential revenue from product sales does not guarantee the outlet will be loyal to Telkomsel. Telkomsel should be able to maximize the role of the sub-branch office to maintain dominance in the market while maintaining good relations with partners. It is expected by implement the results of this study, the Telkomsel to increase sales and loyalty of outlets through programs created sub-branch offices. Details about timeline activities shown in exhibit 2.

To execute the company's strategy then there are factors that should have been prepared so that planning can proceed smoothly. In connection with the above proposed implementation plan, the key success factors that must be possessed by Telkomsel are:

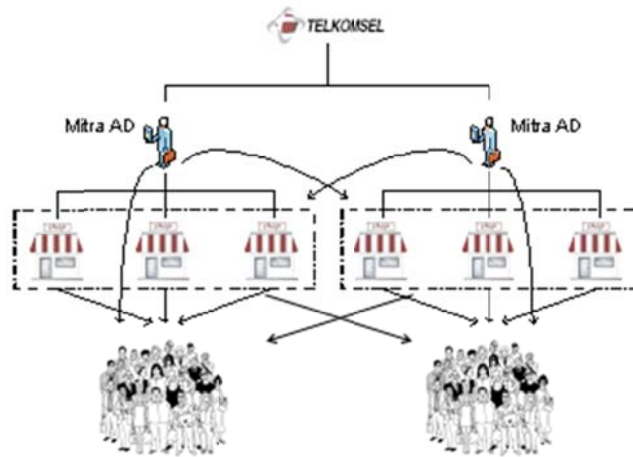
1. Ensure product distribution running smoothly
2. Manage financial resources
3. Attract more outlet to join Telkomsel outlet communities
4. Maximize teamwork
5. Maximize partnerships
6. Keep the creativity process continue

Table 1. Key Success Factors for Telkomsel

KSF	Target
Ensure product distribution runs smoothly	< 10% delivery delay per month
Manage financial resources	< 5% inefficiency level per month
Attract more outlet to join Telkomsel outlet communities	10 – 20 outlet per month
Maximize teamwork	90% workload completion
Maximize partnerships	Increase 20% sales in retail outlet per month
Keep the creativity creation continue	1 program proposal per month

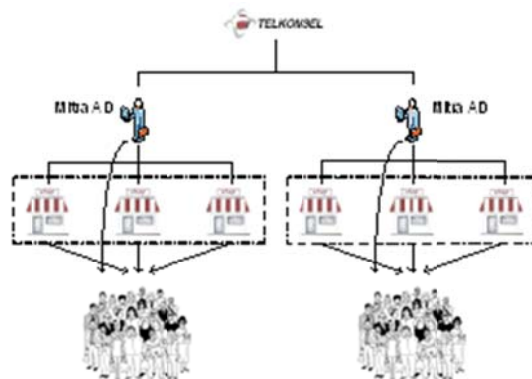
**Exhibit 1**

Figure Soft-cluster Business Model of Telkomsel



**Exhibit 2**

Hard-cluster Business Model of Telkomsel



**Exhibit 3**  
**TOWS Matrix**

	<b>External Opportunities (O)</b> 1. Advancement in social networking 2. Trend of increasing number of labor 3. New wave business	<b>External Threats (T)</b> 1. Industry liberation 2. Hectic politic activity 3. Low price competition 4. Product Cannibalism 5. BTS installation restriction
	<b>SO</b>	<b>WO</b>
<b>Internal Strengths (S)</b> 1. Huge Subscriber Database 2. Broad area coverage 3. Strong financial strength 4. Good brand equity	1. Creating product that integrate all popular social media [ <b>S5,O1,O3</b> ] 2. Providing high performance server [ <b>S2,S3,O2</b> ] 3. Preparing cloud technology platform and Smartphone apps [ <b>S2,S5,O3</b> ] 4. Create campaign theme as high esteem subscribers [ <b>S4,O2</b> ]	1. Investment on infrastructures and develop strategic alliance with suppliers and overseas mobile telco companies [ <b>S3,S4,T1</b> ] 2. Educate subscriber concerns ethical politic campaign [ <b>S1,S2,T2</b> ] 3. Create new prepaid starter pack that offering combination of free call, SMS and data [ <b>S2,S3,T3</b> ] 4. Maximizing BTS utilization and improve server performance [ <b>S2,S5,T5</b> ]
	<b>WO</b>	<b>WT</b>
<b>Internal Weaknesses (W)</b> 1. Subsidiary dependency 2. Dependency on key suppliers 3. Hard cluster hasn't running well 4. Sub-branch loyalty program guideline is still modest 5. Low outlet utilization	1. Search new key suppliers outside Telkom ( <b>W1,W2,O3</b> ) 2. Ensure outlets about business prospect ([ <b>W5,W3,O2</b> ]) 3. Developing guideline which integrating region and sub branch programs [ <b>W3,W4,O3</b> ]	1. keep parent company to stay neutral [ <b>W1,T2</b> ] 2. Join operation on BTS [ <b>W1,W2,T5</b> ] 3. Educate outlets about concept and benefits of recent system[ <b>(W4,T3,T4)</b> ] 4. Urge government to protect the industry ( <b>W3,T1</b> )

**Exhibit 4**  
Activities Timeline of Telkomsel Sub-branches

Schedule	2012												2013
	Jan	Feb	Mar	Apr	May	Jun	Jul	Agt	Sep	Nop	Dec	Jan	
Planning													
Merchandise Competition													
Merchandise Competition Result Announcement													
Vendor selection													
Merchandise Production													
Outlet Participant Registration													
Outlet Sales Competition													
Update													
Competition Result Announcement													
Outlet Gathering													
Incidental events													
Evaluation													

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